

MINUTES

**California Industrial Development
Financing Advisory Commission
915 Capitol Mall, Room 587
Sacramento, California
January 28, 2009**

1. CALL TO ORDER & ROLL CALL

Bettina Redway, Acting Chair, called the California Industrial Development Financing Advisory Commission (CIDFAC) meeting to order at 10:31 a.m.

Members Present: Bettina Redway for Chairman Bill Lockyer, State Treasurer
Tom Sheehy for Michael C. Genest, Director, Department of Finance
Les Kleinberg for John Chiang, State Controller
Preston DuFauchard, California Corporations Commissioner, Department of Corporations
Stanton Hazelroth for Dale Bonner, Agency Secretary, Business, Transportation and Housing Agency

Staff Present: Tom Dresslar, Executive Director
Eileen Marxen, Deputy Executive Director

Quorum: The Acting Chair declared a quorum

2. APPROVAL OF NOVEMBER 19, 2008 MEETING MINUTES

Ms. Redway asked if there were any questions or comments from the Board or the public on the November 19, 2008 meeting minutes. There were none.

Mr. Kleinberg moved approval of the November 19, 2008 meeting minutes. Upon a second of the motion, the item passed unanimously.

3. EXECUTIVE DIRECTOR'S REPORT

Mr. Dresslar reported that the interagency agreement with the California State Treasurer's Office for rent and security is noteworthy because it is about \$13,000 more than it was last year. He stated the reason for the increase is that CIDFAC is no longer getting its rent subsidized by the California Pollution Control Financing Authority (CPCFA). Mr. Dresslar also stated that the California Debt Limit Allocation Committee is expected to award California's \$3.3 billion in tax-exempt cap to the various categories of private activity bonds. He said that CIDFAC staff expects the Industrial Development Bond (IDB) program to receive \$150 million of allocation, which was staff's request to CDLAC based on the projected pipeline for calendar year 2009.

With respect to the interagency agreement, Mr. DuFauchard asked if this agreement covers the full 2008/2009 fiscal year, noting that we are midway through the fiscal year.

Ms. Marxen responded affirmatively and stated that she believes the full contract amount is billed in two installments by the Department of General Services.

Ms. Marxen reported that the Federal Home Loan Bank (FHLB) workshops that staff conducted in Sacramento, San Francisco and Los Angeles were a success. Staff had a debriefing with the FHLB staff, which also agreed that the workshops were a great success. All three workshops were well attended by issuers, bond practitioners, economic development professionals and federal home loan member banks. Ms. Marxen noted that there were a lot of attendees representing the smaller regional banks in California, particularly at the San Francisco and Los Angeles workshops. She stated that was good because the smaller banks are often the ones who have the ongoing relationships with the small to medium size manufacturers which take advantage of the state's IDB program. She indicated that, if the FHLB program makes it possible for IDB borrowers to obtain credit enhancement with regional banks with which they have an existing relationship, then that would be beneficial to the manufacturers. Ms. Marxen continued that the written and verbal comments from the workshop attendees were overwhelmingly positive. The FHLB of San Francisco staff expects to fully incorporate the workshop materials in its ongoing annual seminar series.

Ms. Marxen reported that she has been asked to speak about the FHLB credit wrap at the Counsel for Development of Finance Agencies (CDFA) annual conference in Pittsburg this spring. CDFA hopes to use the CIDFAC workshop as model for other states to reach out its issuers and banking communities to inform them of the expansion of the FHLB credit enhancement program.

With respect to federal legislation, Ms. Marxen stated that a senate bill was introduced in 2008 which included a provision that would expand the definition of 'manufacturing facility' to include those facilities that produce intangible products as well as tangible products. On the first day of this 111th congress, Senators Kerry and Snow reintroduced this legislation and the change, if made, is anticipated to provide access to IDB financing by biotech, hi-tech, nano-tech, and other similar types of industries. As part of our CDFA activities, Ms. Marxen contacted Senators Feinstein's and Boxer's legislative staff with whom she met with last November to reiterate CIDFAC's support for the Kerry/Snowe bill. Ms. Marxen reported that the provision was then included in the Senate Finance Committee's version of the economic stimulus bill. Staff is optimistic that the provision will remain in the Senate stimulus bill and be incorporated in the final stimulus bill expected to be passed sometime in February. Staff is monitoring the economic stimulus bill for provisions which may have additional effects on California's IDB Program, such as an increase of the maximum bond amount from \$10 million to \$20 million and the elimination of the AMT. She said elimination of the AMT is expected to increase the investor pool for IDBs.

Ms. Redway commented that CDFA actually called Ms. Marxen to thank her for her participation and advocacy in getting the definition change included in the federal stimulus bill.

Agenda Item – 2.

Ms. Redway also noted that the workshops for the Federal Home Loan Bank were a much larger success than everyone thought. Ms. Redway said the workshops were valuable to many people in the IDB industry and praised Ms. Marxen for initiating the workshops.

Mr. Hazelroth stated that he was very thankful that Ms. Marxen was working on the federal legislation and that she deserves recognition for efforts. Mr. Hazelroth stated that he recently read reference to a proposal that the IDB bond amount cap may be increased from \$10 million to \$30 million, and he asked if Ms. Marxen has heard anything about such a proposal.

Ms. Marxen responded that she has not heard of such a proposal. She stated that federal tax law currently imposes dollar caps for IDBs: one is that the maximum bond amount is currently \$10 million, and the maximum capital expenditure amount, including any IDB proceeds, within the jurisdiction of the project is \$20 million. She said there have been some discussions about eliminating the capital expenditure cap.

Ms. Redway asked about the status of other provisions in the stimulus bill, such as tax credit and infrastructure private activity facility bonds.

Ms. Marxen replied that there are provisions in the stimulus bill for recovery bonds that seem to be similar to empowerment zone bonds, which are included in federal tax laws for IDBs. She said CIDFAC acts as the approval agency for empowerment zone bonds, and there are four federally- designated empowerment zones in the state. She stated that CIDFAC staff will monitor such provisions to see how they are structured as far as the designated issuers of the bonds and the process whereby they will be issued.

Ms. Redway stated that this is all happening very quickly.

Marxen replied that yes, very quickly and many of the stimulus bill provisions, as currently written, are for a limited term such as two years. She said that, therefore, some of these new programs will sunset after 2010. She speculated that, once the stimulus bill passes, CIDFAC staff will have to hit the ground running to implement any provisions affecting IDBs.

Ms. Redway asked if there were any questions or comments from the Board or the public. There were none.

- A. Interagency Agreement with the State Treasurer's Office for Rent & Security Expenses (\$18,305) for FY 08/09 (Information Item, see above)

4. BUSINESS ITEMS

Staff introduced James Kordas, GE Government Finance, and John Stoecker, California Municipal Finance Authority.

A. REQUEST TO APPROVE INITIAL AND FINAL RESOLUTION FOR TAX-EXEMPT BONDS AND REQUEST FOR TAX-EXEMPT BOND ALLOCATION

- 1) On behalf of A.E. Company dba Arnold Engineering or an affiliate, the California Municipal Finance Authority (CMFA)** requested approval of the Initial and Final Resolution No. 09-0001 for an amount equal to \$4,100,000 in tax-exempt bonds and Allocation Resolution No. 09-001-01 for an amount equal to \$4,100,000 in tax-exempt IDB allocation. Bond proceeds will be used for the acquisition and installation of new equipment, including cutting tools, machine tools and accessories, and precision measuring devices. Presented by Deanna Hamelin.

Ms. Redway asked if there were any questions or comments from the Board or questions from the public.

Mr. Sheehy moved approval of the item. Upon a second, the motion passed unanimously.

Mr. DuFauchard inquired about the change in the financing terms from 2008 to now as the financing was previously approved in 2008 but the bonds were not sold.

Mr. Kordas replied that GE's cost of borrowing was significantly higher last year at the point when the transaction was scheduled to close, and therefore the borrower's cost of borrowing through the IDB private placement were higher.

Mr. DuFauchard commented that the market did experience a period in the last quarter of 2008 when interest rates increased dramatically.

Mr. Kordas stated that now GE is able to get a lower cost of funds, and the customer is able to move forward with the closing.

B. CIDFAC ALLOCATION PROCESS FOR 2009

At its January 28, 2009 meeting, the California Debt Limit Allocation Committee (CDLAC) will hear its staff's proposal that the Committee award Small-Issue Industrial Development Bond Allocation to CIDFAC for the purpose of administering the Industrial Development Bond (IDB) Program. If CDLAC approves the request, then CIDFAC will approve both the issuance of IDB's by local issuers and the allocation of IDB's to local issuers and the California Infrastructure and Economic Development Bank (the "I-Bank"). This "one-stop shop" process would start at CIDFAC's January 28, 2008 meeting. Neither CDLAC nor CIDFAC staff has received any indication that the IDB community opposes this proposal, and this was the process utilized in the 2008 IDB allocation pool.

In anticipation of receiving the award of IDB allocation, CIDFAC must adopt a process by which it will approve allocation for individual projects. Staff recommends the Commission adopt a process whereby IDB allocation rounds may become competitively based upon the public benefits point scheme in CDLAC's procedures. Staff does not feel that utilizing competitive rounds is necessary at this point, but wants the ability to implement the policy if the need arises.

Staff bases its recommendation on two factors: (1) CIDFAC's 2009 informal survey of issuers and practitioners which shows a possible demand of more than \$211 million; and (2) there are established procedures and precedent for competitive allocation rounds. Presented by Eileen Marxen.

Ms. Redway asked if there were any questions or comments from the Board.

Mr. Dufauchard asked if the A.E. Company project that was before the Board today was part of the 2008 competitive allocation process.

Ms. Marxen responded yes that the project was awarded allocation in August of 2008, which was a competitive round.

Ms. Redway said that Mr. DuFauchard raised a good point. She asked if there were any comments from the public. There were none. Ms. Redway asked if there was a motion.

Mr. Sheehy moved approval of the item. Upon a second, the motion passed unanimously.

5. PUBLIC COMMENT

Ms. Redway asked for public comments. There were none.

6. ADJOURNMENT

There being no further business, public comments, or concerns, the meeting was adjourned at 10:49 a.m.

Respectfully submitted,

Tom Dresslar
Executive Director